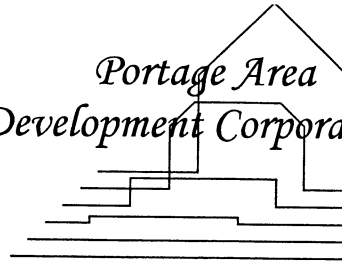




Portage Area  
Development Corporation



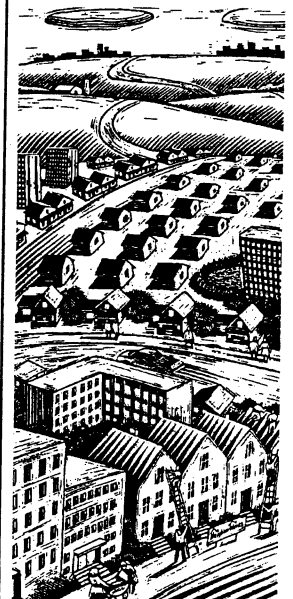
Written Testimony of  
**William Hale**  
President

**Portage Area**  
**Development Corporation**

*Full-Cycle Lending<sup>SM</sup> and HUD's  
Housing Choice Voucher Program:  
Promoting Homeownership for Ohio's  
Communities*

Submitted to the U.S. House of Representatives  
Committee on Financial Services  
Subcommittee on Housing and  
Community Opportunity

July 29, 2003



Good afternoon, Subcommittee Chairman Ney, and members of the subcommittee. My name is William Hale and I am the President of the Portage Area Development Corporation. I served in the US Air Force from 1963-1967. I received both a Bachelor's Degree in Economics, and a Master's Degree in Business from Kent State University. I have 28 years of experience in this field as a public, private for profit employee. The last 18 years I have spent as the president and CEO of PADCorp.

I am here to talk with you about a few housing programs that are crucial to the revitalization of the communities served by the Portage Area Development Corporation.

## **Portage Area Development Corporation**

Let me first say a word about the Portage Development Corporation (PADCORP), where I have worked since its inception in 1985. As a 501 c3 non-profit, PADCorp has been providing rental and homeownership opportunities in Portage County. Around the turn of the century, the organization recognized needs in these areas beyond the Portage County line. We are now a regional, rural (defined as communities with a population less than 50,000) organization providing these services throughout Northeast Ohio. To do this, we have received support and guidance from many sources- both private and public. Some of the national sources include USDA, HUD, Rural LISC, Enterprise, and, perhaps with the greatest impact, Neighborhood Reinvestment Corporation.

## **Member of the NeighborWorks Network**

The Portage Area Development Corporation has been a member of the NeighborWorks® network since 1999. The NeighborWorks network is founded and supported by Neighborhood Reinvestment Corporation. The Neighborhood Reinvestment Corporation strengthens communities and transforms lives across America by supporting innovative local partnerships of residents, businesses, and government, collectively known as the NeighborWorks® network, and by advancing broader community development goals. This year alone, the NeighborWorks® system will generate nearly \$2 billion of direct investment in more than 2,300 lower-income urban, suburban and rural communities nationwide; help more than 38,000 lower-income families purchase, improve and maintain their homes; provide pre-purchase and post-purchase homebuyer counseling to more than 78,000 families. NeighborWorks® organizations also own and manage over 36,000 rental or mutual housing units. PADCorp's share of that investment is approximately \$40 million for fiscal year 2002. About one-quarter of that represents 100 new homeowners.

PADCorp, like most, is a locally governed NeighborWorks® organization and, again like most, operates revolving loan funds for non-conventional loans to meet community credit needs that cannot be funded through bank or public loan sources. PADCorp is responsible for setting strategy, raising funds and operating its program. We provide pre- and post-

purchase homebuyer counseling, rehab monitoring, and targeted lending services that complement and leverage conventional lending activity.

The NeighborWorks® System integrates public and private support, leveraging federal funding to attract private resources. Private investors have viewed the NeighborWorks network as an increasingly sound investment; in fact, the typical NeighborWorks organization receives most of its funding from private sources and earned fees. Neighborhood Reinvestment does provide a critical financing vehicle to NeighborWorks® organizations in the form of equity capital grants for real-estate development and local revolving loan funds. The NeighborWorks® organizations, in turn, use these funds to draw private capital in a variety of ways, including equity and gap financing for home-purchase loans, including down payments and closing costs.

Loan recipients are typically underserved families. Seventy-one percent of loans made through NeighborWorks® revolving loan funds are made to very low- or low-income households, 53 percent to minority-headed households, and 43 percent to female-headed households. Loans carry a rate and term that the borrower can afford to pay back. The NeighborWorks® System is the only national nonprofit network with expertise in designing, originating and servicing small non-conventional loans to lower-income families. These loans help create first-time homebuyers, often prevent mortgage delinquencies, provide money for repairs, and help ensure accessibility for those with disabilities. The loans offered by local NeighborWorks® organizations provide a blanket of security for neighborhoods of modest means. By designing loans to fill the gap between the capacity of the borrowers and the parameters of conventional lenders, the NeighborWorks® organizations complete transactions that would not otherwise be made. PADCorp is one of ten Neighbor Works® organizations in Ohio.

### **Homeownership Benefits**

The benefits of homeownership are intuitive for us. For the shareholders the benefits can easily be seen:

- The homeowner gains wealth and financial independence
- Those that have a stake in this industry (i.e.: banks, realtors, etc.) penetrate markets that without assistance are unattainable
- Neighborhoods are more stable

These intuitive “facts” are enhanced by a study published this past June by the Homeownership Alliance entitled, “The Social Consequences of Homeownership”, authored by Robert D. Dietz of Ohio State University & Department for Economics and Center for Urban and Regional Analysis. The study stresses that homeownership is not for everyone. For many, rental is the best option. The study highlights four major areas of social benefits to homeownership with reference to their families as well as their local communities:

1. ‘Children of homeowners are likely to perform higher on academic achievement tests and are more likely to finish high school. Furthermore,

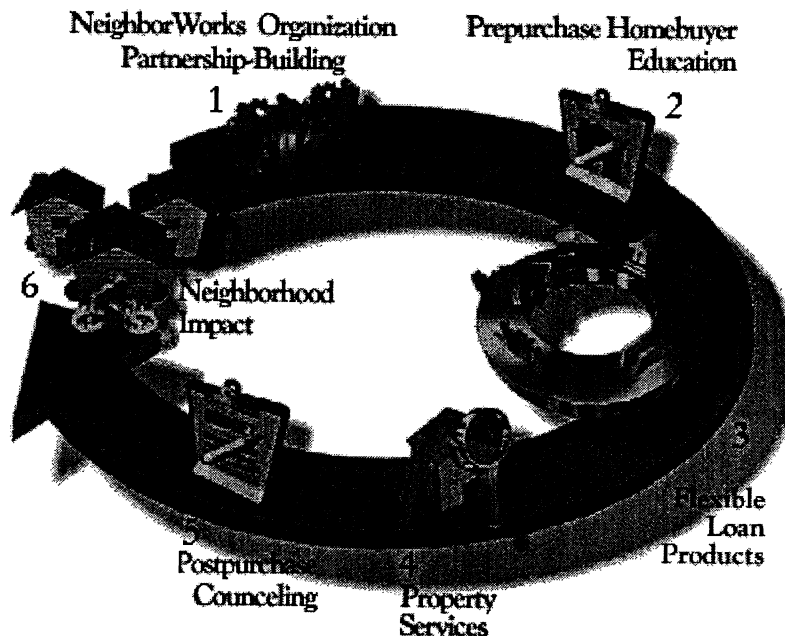
children of homeowners have fewer behavioral problems in school and the females are less likely to become pregnant as teenagers. These outcomes survive many controls for parental education, marital status, and other statistical as well as neighborhood characteristics.

2. Political activity, like voting, as well as participation in civic organizations is higher among homeowners than renters after controlling for personal characteristics and socio-economic status.
3. Homeowners, again once controls are in place, are more satisfied with their lives and are happier.
4. Some of the most recent research suggests that a high level of homeownership in neighborhoods enhances property values.'

It seems clear to me that, where it can be responsively obtained, the promotion of homeownership is good for our society.

The NeighborWorks full-cycle lending program provides a superior approach to increasing homeownership.

## The Steps of NeighborWorks Full-Cycle Lending<sup>SM</sup>



1. **Organization Partnership-Building.** The NeighborWorks<sup>®</sup> organization makes a commitment to the process by creating a partnership of residents, business and

local government leaders. A plan for targeted community revitalization is put in place.

2. **Pre-purchase Homebuyer Education.** The homebuyer learns about the purchase process with a supportive organization that helps them clear up credit problems, find a home they want to buy, and coordinate the rehabilitation needs of the property.
3. **Flexible Loan Products.** Local lenders work with the NeighborWorks® organization to create mortgage products the customer can afford -- with features like lower down payments, downpayment assistance, and rehabilitation loans even when the total cost exceeds the value of the home. Property casualty insurance and mortgage insurance companies provide products that allow for the high loan-to-value ratios. The lender can hold the loans in portfolio or package and sell them to Freddie Mac or Fannie Mae's secondary markets. Neighborhood Housing Services of America purchases special-needs first mortgages as well as second- and third-mortgage rehabilitation loans. The secondary markets return funds to the lender, who recycles them by originating additional mortgages to the community.
4. **Property Services.** The NeighborWorks® organization inspects the property, offers technical assistance to the homebuyer and assists with the property's rehabilitation.
5. **Post-purchase Counseling.** The NeighborWorks® organization trains the new owners in home maintenance and budgeting, and supplies early intervention delinquency counseling so that defaults and foreclosures are avoided.
6. **Neighborhood Impact.** Homeowners gain a stake in their communities; lenders reach a significant market in which risk has been mitigated; the tax base increases; and the nonprofit partnership is one step closer to achieving its goal of neighborhood self-sufficiency. Everyone benefits.

NeighborWorks® Full-Cycle Lending<sup>SM</sup> is a means, not an end. As this comprehensive system is established, home-ownership rates among lower-income families rise, resulting in more stable communities with longer term residents, increased savings and civic involvement for individuals and families, and increased high school and college graduation rates for their children. By stimulating reinvestment in NeighborWorks® communities, Full-Cycle Lending<sup>SM</sup> is a powerful force that leads to a renaissance in lower-income neighborhoods across America.

## **A Comprehensive Homeownership Strategy**

The NeighborWorks® Campaign for Home Ownership initiative is a joint effort of banks, insurance companies, secondary markets, government, the real estate community and others, coordinated by Neighborhood Reinvestment Corporation and involving more than 130 local community-based NeighborWorks® organizations to bring families of modest means into home ownership. The NeighborWorks® Campaign for Home Ownership has

assisted over 65,000 low- to moderate-income families to purchase homes, educated more than 350,000 families, and generated over \$4.5 billion in investment.

Leaders of community-based organizations in the national NeighborWorks<sup>®</sup> network recognized that the conventional mortgage market could not fully meet the needs of their lower-income customers. By creating a system that reaches these customers, teaches them about home ownership, and prepares them to be owners, these nonprofits have not only been able to help lower-income families obtain the American Dream of Home Ownership, but have also done so in a way that reduces the risk of delinquency and foreclosure. This system, service marked as Full Cycle Lending<sup>SM</sup>, includes pre-purchase homebuyer education, flexible loan products, property services and post-purchase counseling.

Full Cycle Lending<sup>SM</sup> is a process that benefits all stakeholders in the homeownership arena. Residents can overcome hindrances to ownership as the process is demystified; they save for a down payment and they secure their home and mortgage. Lenders can invest with confidence about an owner's ability to repay the mortgage. Local government officials can take pride in watching neighborhoods change. More and more homeowners will stake a claim in their communities, enhancing the tax base and contributing to overall community stability and renewal.

For PADCorp, Neighborhood Reinvestment Corporation provides both a model of programmatic efficiency as well as crucial funding resources for various neighborhood revitalization programs. However, other sources available to PADCorp, such as HOME and CDBG, are also critical parts of our community development puzzle. In addition, PADCorp works closely with USDA's Rural Development Program, specifically its Wooster and Columbus offices. With the assistance of the Neighborhood Reinvestment Corporation's Multi-Family initiative and the Counsel of Rural Housing Development, we will host a conference on 515 Rental Housing Preservation in the Fall of 2003. Support of the NeighborWorks district office and Multi-Family Initiative has been critical in this effort.

For PADCorp, the NeighborWorks Network has:

- Increased capabilities through training
- Increased capabilities through Technical Assistance
- Increased capabilities through capital

PADCorp's new Homeownership Center is a perfect example. Through capital, Technical Assistance and training, PADCorp has successfully embraced the NeighborWorks full-cycle lending model. Through extensive public and private partnerships, PADCorp has intensive pre-and post-purchase education and counseling programs that produce mortgage ready, default resistant buyers. Our goal for 2003 is 100 new homeowners. A small but significant portion of this 100 is the Section 8 to homeownership program that will be discussed next.

## **HUD's Housing Choice Voucher Program and the NeighborWorks Network**

The NeighborWorks system is dedicated to expanding homeownership opportunities across the country, particularly for families and individuals with low and moderate incomes. One of the most innovative programs used in this effort is the Section 8 homeownership option. Strong technical and financial support from the Neighborhood Reinvestment Corporation has enabled NeighborWorks organizations to serve as a bridge between private lenders and public housing authorities to make homeownership a reality for qualified Section 8 voucher holders. Congress has propelled the NeighborWorks network's efforts by providing funding specifically targeted to NeighborWorks organizations partnering with Public Housing Authorities (PHAs).

In recognition of the early success of this effort, the Corporation's fiscal years 2001 and 2002 appropriation included a total of \$15 million dedicated to developing capacity and effective partnerships around the U.S. Department of Housing and Urban Development's Section 8 homeownership option. Most of the funds were used to capitalize NeighborWorks organization's revolving loan funds, which serve as a source for second mortgages (with a smaller portion of the set-asides being used for capacity-building grants). These grants helped some NeighborWorks organizations tailor their pre- and post-purchase services to the specific needs of their Section 8 population, develop unique systems to work with a Section 8 voucher and the PHA, or defray a portion of the costs associated with hiring additional staff to implement the program.

### **Portage Area Development Corporation's Work with Housing Choice Voucher Program**

The Section 8 Voucher Choice Program in PADCorp's experience is unique in each county where we are working. Each housing authority is local, with local control. They are responsive to the unique needs of their constituents. Lake County, on Ohio's north shore, has different needs and resources than Portage County (the middle of our service area), and Columbiana County in Appalachia along the Ohio River is again different. As we begin our work with Zanesville, we are finding, again, unique needs and demographics.

NeighborWorks is able to partner with Section 8 programs throughout the country, as the Section 8 Program ensures both national consistency and local responsiveness. One of the benefits of providing rental housing assistance through the Federal government level is ability to design rules that are consistent across the country, which reinforces the Section 8 goal of promoting housing choices and mobility opportunities. Yet, to be meaningful at the local level, rental assistance has to be flexible enough to allow for targeting of assistance to address unique, local needs. The current Section 8 system of implementation

successfully strikes a balance between providing national consistency of rules of operation and flexibility in distributing resources. The current system greatly supports NeighborWorks' Section 8 homeownership efforts at both the national and local levels. Block granting the Section 8 Program threatens this local control and responsiveness.

Neighborhood Reinvestment's Congressional set-asides in the past fiscal years helped fund 53 NeighborWorks organizations (4 in Ohio) develop partnerships with 70 PHAs (7 in Ohio), provide 2,000 families with pre- and post purchase homebuyer education, and resulted in over 200 new homeowners. The median income of these families was slightly over \$24,000, compared to the median family income of the typical US buyer of \$48,991. These partnerships are built upon the NeighborWorks network's solid experience in pre- and post-purchase counseling, innovative mortgage financing and in leveraging public resources and private investment. The early results of this pilot offer evidence of the program's ability to assist those who are often locked out of homeownership by conventional mortgage standards – 85 percent are single women who head their households and 35 percent are very low-income residents.

Since the inception of the program nationally, 6,362 eligible households have shown an interest in becoming homeowners, 1,711 households have completed training, and 278 Section 8 recipients have become homeowners. In the great state of Ohio, 651 eligible households have shown an interest in becoming homeowners, 133 households have completed training, and 26 households have achieved the dream of homeownership. In year 2002, 12 of these were with the assistance of PADCorp.

Active Housing Authority	Partnerships as of March 31, 2003
Neighborhood Housing Services of Hamilton	Dayton Metropolitan Housing Authority
Portage Area Development Corp.	Portage Metropolitan Housing Authority
Portage Area Development Corporation	Lake Metropolitan Housing Authority
Portage Area Development Corporation	Columbiana Metropolitan Housing Authority
Neighborhood Housing Services of Toledo	Marion Metropolitan Housing Authority
The Homeownership Center of Greater Cincinnati	Hamilton Metropolitan Housing Authority
The Homeownership Center of Greater Cincinnati	Cincinnati Metropolitan Housing Authority

In addition to the above, PADCorp and the NeighborWorks Network is assisting in or discussing this program with several other Housing Authorities, including Zanesville.

## Conclusion and Summary



Let me close by thanking the Subcommittee for the opportunity to speak about the work of Portage Area Development Corporation and the broader NeighborWorks® Network. It is an exciting and challenging time. With the looming deficit, it is imperative that you do not lose focus on those earning less than 80 percent of median, the poorest one third of Ohio's households. This is true for both rental and homeownership programs. I respectfully request that you make your best effort to:

- Maintain or increase funding in effective programs. As you do this, you look for innovative programs, partnerships that will enhance not only the beneficiaries but the Community's where the target clients reside. Neighborhood Reinvestment Corporation and their Multi-Family Initiative Campaign and Homeownership Campaign are two excellent examples.
- Do not block grant the Section 8 Program. It will take local responsiveness out of the program and in some states, seriously cripple the program.
- Find ways to increase funding for homeownership and the Section 8 Homeownership Program. I am encouraged by some of what I see in your HUD, USDA (502) and Neighborhood Reinvestment Corporation's proposals.
- Last, examine initiating a National Housing Trust Fund. Ohio just did, and despite a dire financial crisis, Ohio will maintain its dedication to affordable housing.

Again, I thank you.